

Message Text

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43

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIE-00 SSO-00 NSCE-00

INRE-00 ABF-01 FSE-00 DRC-01 /163 W
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O R 221532Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 3875

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

UNCLAS ROME 3991

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALY ABOLISHES DUAL EXCHANGE MARKET

PASS TREASURY AND FRB

REF: ROME 485 OF JANUARY 21, 1973

1. /SUMMARY/. IN SPEECH BEFORE PARLIAMENT OUTLINING
ECONOMIC POLICIES TO BE ADOPTED BY NEW CENTER-LEFT
GOVERNMENT (TO BE REPORTED SEPARATELY), PREMIER-
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DESIGNATE RUMOR ANNOUNCED ABOLITION EFFECTIVE

MARCH 22 OF DUAL EXCHANGE MARKET FOR CAPITAL ACCOUNT ITEMS IN BALANCE OF PAYMENTS. DUAL EXCHANGE MARKET WAS ESTABLISHED ON JANUARY 21, 1973, TOGETHER WITH SUPPORTING MEASURES TO REDUCE ADVERSE LEADS AND LAGS ON CURRENT ACCOUNT (REFTEL) AND WAS DESIGNED TO AFFORD ITALY GREATER INDEPENDENCE OF DOMESTIC MONETARY POLICY AND TO PERMIT EASY MONETARY POLICY AND AN EXPANSIONARY BUDGET WITHOUT EXCESSIVE FEAR OF CONTINUED BALANCE OF PAYMENTS DEFICITS FROM LARGE CAPITAL OUTFLOWS. /END SUMMARY/.

2. FOLLOWING RECENT MEASURES ADOPTED BY GOI TO REDUCE CAPITAL OUTFLOWS, DUAL EXCHANGE MARKET BECAME INCREASINGLY INEFFECTIVE AS INSTRUMENT TO REDUCE CAPITAL FLIGHT--PARTICULARLY IN VIEW OF ARRAY OF EXCHANGE CONTROLS ADOPTED BY GOI TO REDUCE CAPITAL OUTFLOWS (I.E., 50 PERCENT DEPOSIT REQUIREMENT ON CAPITAL OUTFLOWS). ABOLITION OF DUAL EXCHANGE MARKET ALSO REFLECTED DESIRE OF FINANCIAL AUTHORITIES TO ELIMINATE BUREAUCRATICALLY CUMBERSOME EXCHANGE SYSTEM.

3. ON BASIS OF INCREASINGLY "THIN" FINANCIAL MARKET AND FACT THAT VOLUME OF TRANSACTIONS IN COMMERCIAL LIRA MARKET ROUGHLY TWENTY TIMES THAT IN FINANCIAL LIRA MARKET (\$100 MILLION DAILY VERSUS \$4-5 MILLION), UNIFIED LIRA RATE EXPECTED TO SETTLE SOMEWHERE NEAR COMMERCIAL LIRA RATE. HOWEVER, COMPARED WITH MARCH 21 AVERAGE LIRA/DOLLAR EXCHANGE RATE OF 640 LIRE PER DOLLAR IN FINANCIAL LIRA MARKET AND OF 624 LIRE PER DOLLAR IN COMMERCIAL LIRA MARKET, UNIFIED AVERAGE LIRA EXCHANGE RATE ON MARCH 22 WAS 623 LIRE PER DOLLAR, SLIGHTLY BELOW PREVIOUS DAY'S EXCHANGE RATE IN COMMERCIAL LIRA MARKET.

4. FINANCIAL PRESS REPORTS THAT ABOLITION OF DUAL EXCHANGE MARKET, ASIDE FROM TECHNICAL CONSIDERATIONS MENTIONED ABOVE, REPRESENTS REAFFIRMATION OF DESIRE OF GOI TO HARMONIZE DOMESTIC EXCHANGE MARKET WITH EXCHANGE MARKETS IN EC COUNTRIES. CONCEPT OF A "RETURN TO EUROPE" ALSO REFLECTED IN RECENT INCREASE IN BANK OF UNCLASSIFIED

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ITALY BASIC DISCOUNT RATE. PRESS ALSO SPECULATES, PERHAPS OPTIMISTICALLY, THAT "CONSULTATIONS" AMONG EC COUNTRIES MAY HAVE OCCURRED WITH RESULT THAT FIRST STEPS NOW BEING TAKEN ON LONG AND DIFFICULT ROAD LEADING TO RE-ESTABLISHMENT OF EC "SNAKE". PRESS CONCLUDES THAT EC COOPERATION A RESULT OF RECOGNITION BY EC COUNTRIES THAT PHILOSOPHY OF "EACH MAN FOR HIMSELF" IN FINANCIAL AND MONETARY FIELDS WAS LEADING

TO ECONOMIC RUIN. FINANCIAL PRESS FORESEES STRENGTHENING
OF LIRA ON EXCHANGE MARKETS AS RESULT OF RECENT STEPS
TAKEN BY GOI AND SEES BANK OF ITALY AS ADEQUATELY
ARMED WITH CREDIT LINES TO ASSURE THAT END.VOLPE

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